
Homeownership and Affordability for Low-Income Suburban Households

**A report on
permanently affordable homeownership
in
west suburban Hennepin County**

A report by:

**West Hennepin Human Services Planning Board
and
Community Builders**

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Report Author:

Judith K. Tennebaum

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The following supplementary materials are available upon request by calling the Community Builders/West Hennepin Human Services Planning Board offices.

Supplementary Materials

Sample Publicity

Torrington Affordable Housing
West Hartford Interfaith Coalition
Action Community Land Trust

Sample Legal Documents

Habitat for Humanity
Torrington Affordable Housing

Legislative Definitions

Material Participation
Neighborhood Land Trust

Action Community Worksheets

Action Community Residents Selection

Materials from Institute for Community Economics

SUMMARY

Developing permanently affordable home ownership is a long and complex process. Most organizations work for at least two years before anyone is actually housed and some labor much longer. A nonprofit organization contemplating such a project should be sure that it is willing to commit the necessary resources.

There are several ways to structure a permanently affordable home ownership program. All of them depend on legal restrictions on the price of resale and income limits for the owner/occupants. All depend on continuing oversight by a nonprofit organization or public agency. The plans must be so structured that the restrictions can not be easily evaded or overturned in court. The best plans also allow community input and a means of organizing the delivery of maintenance and other services.

Experienced nonprofit developers of affordable housing differ in their advice, but based on interviews and reading, this report makes the following recommendation:

The best method for developing and preserving permanently affordable home ownership in West Suburban Hennepin County would be to combine a community land trust with a limited equity cooperative, separating ownership of buildings from that of land.

Community Builders should begin the process of expanding community involvement in the establishment of a community land trust. The community land trust should acquire and rehabilitate, or construct new, housing for low income households, some of which are large families. The community land trust should sell the buildings and lease the land to a limited equity cooperative whose members would be all the residents of the housing. A recommended first project would be a well-located, well-built, development of twenty to fifty units. If the initial project were a single home, a limited equity cooperative would not be needed but a community land trust should still be established to hold title to the land and offer support to the residents.

INTRODUCTION

As many once-affordable units are reverting to market rate and exacerbating the housing crisis, permanent protection of affordability has become a major consideration in the development of additional housing. Although it necessitates a great deal of planning, the use of permanent guarantees is very cost effective: the effort and expense of the subsidy for each unit do not have to be repeated. Once the community has made the investment, the infrastructure created will always be used for its intended purpose. At the same time, it protects the residents. They gain a stable living situation. If home ownership is incorporated in the structure, residents get the full use and enjoyment of their property. Ownership allows residents to participate in control and investment, giving them an incentive to maintain their property. Although funding for affordable home ownership is very difficult to obtain and home ownership does not meet the needs of all of those facing housing emergencies, it is an important option to consider.

Before structuring an affordable housing project, a nonprofit organization such as Community Builders should ask several questions:

- 1) What are the priorities? Guaranteeing long term affordability is a slow and complicated process. Is it more important to provide as many new units as quickly as possible or to guarantee long term affordability? Is it worth the investment of time and other resources to develop housing which will remain affordable in perpetuity or is protection for twenty or thirty years long enough?
- 2) What is the level of commitment? Are the members willing to work several years before the first family moves into housing? Are they willing to continue their oversight and involvement once the units are occupied?
- 3) What is the income level to be served? What if the financing available makes the housing too expensive for those at the target level ? Would they continue to seek additional financing to make it affordable, change the target group, or develop rental housing instead?

If the nonprofit concludes that permanently affordable home ownership is a good fit with both its priorities for service and the commitment of its members, then the most promising structure is a community land trust which leases land to a limited equity cooperative. This arrangement combines the best long term guarantees of affordability with the best possibility of providing home ownership for the largest number of people.

The current availability of legal, technical, and financial resources for the development of limited equity cooperatives and community land trusts should prove very helpful. Of particular value to those interested in establishing community land trusts and/or limited equity cooperatives are several actions at the state and national level which provide some financing and tax incentives for land trusts and limited equity cooperatives. Another important factor is the presence of enthusiastic consultants and supporters. Both the Minnesota Housing Partnership and the Institute for Community Economics employ technical experts who could be extremely helpful. Almost everyone contacted for this report generously shared advice and experiences. Representative Dawkins is eager to see these mechanisms utilized in Minnesota. There is a shared excitement among those in the nonprofit sector who are engaged in developing housing. On the other hand, because many of the model programs are relatively new, especially here in Minnesota, the legal and financial mechanisms are still evolving. There are some questions that no one can answer yet.

DEFINITIONS OF TERMINOLOGY

Community Land Trust (CLT): A CLT is a nonprofit corporation which acquires and holds land for the benefit of a community, balancing the interests of individual residents with the interests of the community as a whole. It sells buildings but leases the land on which they stand on a long term basis to the residents of the buildings. It is a democratic group with representation from lessees, community members, and representatives of the public interest. Any non-profit could operate as a CLT but will not actually be one unless it is a membership organization with balanced representation for lessees.

Limited Equity (also referred to as limited appreciation): The amount of equity which can accrue to the occupant upon sale or transfer of the property is limited by a formula restricting the resale value of the unit. Each CLT or nonprofit creates its own resale formula which is incorporated in the contract with the lessees. Most allow at least the return of the original investment indexed to inflation. Some allow an increase for the improvements made or a decrease for destruction of the property.

Cooperative: Each member owns a share in the total business or housing. The control is democratic and membership is open but membership in a housing coop is generally limited to those who live in the coop. The members manage their buildings collectively.

Limited Equity Cooperative: There are limits on the transfer value of each share in the coop. Most limited equity cooperatives are for low or moderate income residents.

Ground Lease: When the ownership of the land is separated from that of the building and is leased by the nonprofit or government agency to the owner(s) of the building. The ground lease can contain such restrictions as an option to purchase or right of first refusal. The ground lease runs for the lifetime of the occupant and can be renewed by the heirs.

Leasehold Cooperative: The cooperative leases the housing from the owner, usually a limited

partnership formed to create financing opportunities. Upon expiration of the lease (usually 20 years), the coop has the right to purchase the housing. In Minnesota, if a leasehold cooperative includes limited equity, income restrictions, and substantial participation, the units qualify for homestead tax basis (about 25 % reduction in taxes) and a property tax assessment that is less than market.

Option to Purchase: The initial seller has the right to buy back the property if the purchaser offers it for sale in violation on the agreed terms (such as the income limits on future purchasers). This can be included in the original deed or in a collateral (additional) agreement.

Right of First Refusal: If the purchaser of the property decides to sell property it must be offered first to the initial seller. This restriction can be in the original deed or in an additional agreement.

Recorded Mortgage Lien (or second mortgage): This mortgage is for a smaller amount, often that of the subsidy and does not come due until the purchaser sells the property. In some cases this lien is only due if the property is sold for more than the permitted amount or to an ineligible buyer.

Resale Formula: A formula which is written in the deed, ground lease, or mortgage lien which determines how the resale value of the housing unit will be calculated. It is the means by which the sponsoring agency balances equity for the resident and affordability of the unit for future occupants. It may also incorporate provisions regarding property maintenance and length of tenure. A resale formula can specify a fixed price, be indexed to inflation, or allow for shared appreciation.

ADVANTAGES AND DISADVANTAGES PERMANENTLY AFFORDABLE HOME OWNERSHIP MODELS

There are many legal devices which help protect affordable home ownership. Some safeguard affordability through deed restrictions or collateral agreements while others recapture the subsidy through second mortgages. However, used alone, these mechanisms are limited in duration and do not contribute to the creation of a pool of permanently affordable housing. They are most useful when they are used as a part of one of the following ownership models:

I. A Community Land Trust

A community land trust offers the longest term protection, is least open to legal challenges, allows continuing community input, and is very flexible. Once established, a community land trust could hold the land on scattered site single dwellings, multiple unit limited equity cooperatives, condominiums and rental properties as well as land preserved for open space. The state of Minnesota has set aside some funds for this purpose and the Department of Housing and Urban Development (HUD) has specifically stated that HOME funds can be used either to help a Community Land Trust purchase land for affordable house or to help a low-income family purchase a home on Community Land Trust land. The Federal National Mortgage Association has approved some of these mortgages for sale in the secondary market. Nevertheless, it is an unfamiliar mechanism to many people and will take outreach and careful explanation to both community members and prospective lenders. It will also require the involvement of the community on a long term basis.

II. A Limited Equity Cooperative

Another possible approach is the creation of a limited equity cooperative which owns the land and buildings. The cooperative holds a blanket mortgage on the entire property. It is not refinanced when members come and go, so mortgage costs remain stable and closing costs are reduced. Thus, if it is subsidized, a limited equity cooperative is well suited for low income

residents. However, establishing a cooperative is labor intensive and members will need training in their rights and responsibilities. A limited equity cooperative will require continuing technical assistance and oversight to make sure the shares are not converted to market value.

III. A Limited Equity Cooperative with a Community Land Trust

The community land trust has broad representation from the community while the cooperative offers an organizational base for providing maintenance and services. When these two structures are combined, it adds a constraint which can keep the cooperative from voting to change its bylaws in order to increase the resale value of shares or to liquidate the assets and split the proceeds among members. However, in California state legislation requires that a limited equity cooperative operate as a 501(c)(3) nonprofit and allows sale only to another 501(c)(3) so it cannot become a regular cooperative. Nonprofit developers there feel satisfied with this guarantee of affordability but it does not provide community input or oversight.

The community land trust also can function as a mutual housing association, linking a number of cooperatives so that they can share training and other services such as bookkeeping

IV. A Limited Equity Condominium

In areas where the conversion of rental properties to condominiums is displacing many renters, HOP funds have been used to subsidize the purchases in some buildings and the condominiums thus purchased have limited equity provisions. This is also one way of handling new mixed income condominium developments. According to several authors, this option is useful mainly for moderate income households because many of the expenses met by condominium dwellers are not subsidized. Limited equity condominiums usually rely on the familiar mechanisms such as deed restrictions and mortgage liens which means that they take less effort to promote and finance but affordability is only guaranteed for a short term.

V. A Leasehold

The final approach which deserves serious consideration is that of a leasehold with a limited equity cooperative. Although the leasehold allows less community control and less direct access to ownership for the occupants than a limited equity cooperative without a leasehold, it is the product of a major strategy for assembling financing. It makes use of a number of tax incentives. The development is financed by limited partners who receive tax credits and run by a general partner which is a nonprofit. Such a development benefits from the homestead tax exemption which decreases the monthly cost for residents by 25% if it meets Minnesota requirements (see Financing and Legal Issues in appendix).

RECOMMENDATIONS

The best method for developing and preserving permanently affordable home ownership in West Suburban Hennepin County would be to combine a community land trust with a limited equity cooperative, separating ownership of buildings from that of land.

Community Builders should begin the process of expanding community involvement in the establishment of a community land trust. The community land trust should acquire and rehabilitate, or construct new, housing for low income households, some of which are large families. The community land trust should sell the buildings and lease the land to a limited equity cooperative whose members would be all the residents of the housing. A recommended first project would be a well-located, well-built, development of twenty to fifty units. If the initial project were a single home, a limited equity cooperative would not be needed but a community land trust should still be established to hold title to the land and offer support to the residents.

- 1. A community land trust should be established to hold title to land acquired as a guarantee of the permanent affordability of any housing developed. The use of a community land trust would make a project eligible for technical assistance from the Institute of Community Economics and financial aid from their Revolving Loan Fund. If housing were developed in tandem with a local unit of government, it would be eligible for the Minnesota Neighborhood Land Trust funds (see Financing and Legal Issues).**
- 2. As with any nonprofit, a community land trust must have articles of incorporation, bylaws, and apply for 501(c)(3) status. It would be possible to modify the documents for Community Builders so that it becomes the land trust, but it may be preferable to create parallel structures for Community Builders and the Community Land Trust. This decision will require legal advice. In either case, new organizational documents will need to be prepared for the limited equity cooperative.**

3. Community Builders should seek additional community involvement in the community land trust both from those who might become residents of future developments and from those who might contribute skills and experience to the project. It is important to build a strong political and community base. A decision will have to be reached on whether the community land trust should encompass all 18 cities. It is important to define a community which is large enough for a "critical mass" of supporters and small enough to encourage participation. A membership structure and membership fees should be determined for the community land trust. Most community land trusts require nominal membership dues such as \$5.00 and many require attendance at one or more meetings.
4. Most of the community land trusts interviewed used personalized, face-to-face meetings as a way of gathering support. In many communities, involvement of religious and political leaders has been crucial. It might be advisable at this time to target an area or areas as the most likely prospect for development. Criteria for selecting an area might include: whether the area already has a good working relationship with WHHS; whether community leaders are supportive; whether there is a visible housing problem.
5. The community land trust should begin to determine a suitable scale for a project. Although many community land trusts have begun with a single house or duplex, the experience of most developers has been that it is not economically feasible to work on very small developments unless the property is acquired through donation. The financing and legal hurdles are almost the same no matter what the size of the project. A project of 20-50 units would create a substantial amount of housing. At the same time, it would be a good size for a limited equity cooperative, large enough for residents to provide a pool of resources and small enough for people to become acquainted on a personal basis.
6. An important decision will be whether to depend primarily on volunteer labor, paid staff, or contract with consultants. It may also be easier to partner with other, more experienced developers.

7. Another important decision will be the income level of the residents. It is, of course, intimately tied to the financing that is available.
8. The community land trust should establish priorities and criteria for selecting properties. Some community land trusts have been the recipients of gifts or bargain sales of property which could be used for affordable housing but most have had to seek properties. Metropolitan Council and Suburban Task force reports suggest that housing for larger families is especially scarce while demographic data predicts a growing need for housing for elderly. Some developers elsewhere have found that there is also a great need for two bedroom units for the smaller families of single parents. As in the development of any affordable housing, an important consideration in property selection is access to transportation, child care, jobs and social services. It may also be important to select properties that are not so large and so isolated from the rest of the community that they already are, or easily become, identified with welfare recipients.
9. Good management systems should be part of the organization from the beginning. Provisions should be made for careful record keeping and independent audits.
10. If multiple dwelling projects are selected, they should be organized as limited equity cooperatives with a blanket mortgage for the entire property. A community land trust can develop a series of limited cooperatives. While one single family home could not utilize a cooperative structure, several single family houses or duplexes developed simultaneously could utilize a limited equity cooperative to save on financing costs and provide a structure for mutual support. The decision on whether to use a cooperative with scattered sites depends on how far apart and how similar they are. The West Bank Community Development Corporation has several scattered site limited equity coops in Cedar Riverside. Lexham Cooperative in St. Paul is another example of a limited equity cooperative consisting of single family homes within a few blocks of each other. The use of a community land trust to hold the ground lease on scattered site housing is very important so that resale restrictions are not evaded and support can be provided to the

household if necessary.

11. Properties selected should be sturdy, well built, and carefully rehabilitated so that the new owners can take pride in their homes and are not quickly saddled with expensive maintenance or utility bills. WHHS is especially well suited to be helpful in these matters.
12. Any home ownership program should include training for residents in home maintenance and repair. Some developers use community education courses and others do their own training. Reserve funds for repairs and maintenance should be part of the budget. If a limited equity cooperative is established, adequate resources should be set aside for training in the special responsibilities of cooperative membership. There are several individuals and organizations which offer this kind of training.
13. Community land trust members will need to develop criteria for resident selection. The Institute for Community Economics publishes a guide to resident selection (see bibliography) which is useful and the supplementary materials contain an example from another community land trust. Locally, Project for Pride in Living and Habitat for Humanity also have experience in resident selection and training.
14. Consideration should be given to use and occupancy restrictions. Requiring that the owner occupy the home is one way of guarding against absentee landlords. It is also possible to require that the home be appropriately maintained or that the owner actively participate in the cooperative.
15. Members of the community land trust will need to examine the possibility of sweat equity as a full or partial downpayment. They will also need to determine lease fees and the resale formula for cooperative shares or homes. Decisions will have to be reached on the extent to which residents should be allowed to build equity and how to treat improvements. The resale formula reflects the balance between the rights of individual

owners and the needs of the community as a whole. While many land trusts allow residents to accumulate some equity and may adjust values to account for inflation, the land trust may decide to place greater emphasis on keeping the housing affordable for future low-income residents. On the other hand, encouraging residents to stay, even if their incomes rise, may contribute to the stability of the community. In any case, most homes in a community land trust are inheritable. Both The Community Land Trust Legal Manual and the supplementary materials include models which could be used for discussion. The community land trust and prospective lessees will need competent legal counsel.

16. Some of the most successful affordable housing developments include provisions for the delivery of social services to the residents.

* See Getting Organized in Supplementary Materials for the Institute for Community Economics' outline of a development process and use of committees.

APPENDICES

UNDERSTANDING COMMUNITY LAND TRUSTS

What is a community land trust?

- A non-profit corporation created to acquire and hold land. It is a democratic group with representation from both lessees and community members. A typical board might be 1/3 residents or lessees, 1/3 other community residents, and 1/3 representatives of public interest such as government, human service agencies, nonprofits, and businesses.
- A community land trust owns land permanently and leases it on a long-term basis to residents, balancing the interests of individual residents with the interests of the community as a whole.
- Any non-profit could own land and lease it to the residents of the buildings as a community land trust does. However, it will not actually operate as a community land trust unless it is a membership organization with balanced representation from the community and the lessees.
- Community land trusts offer residents affordability, stability, and a legacy for their heirs.

What is the tax situation for a community land trust?

- Residents pay property taxes on homes they own and the community land trust pays property tax on the land. The cost of the taxes is covered by the lease fees paid by the residents. Often property taxes can be reduced if the assessment is based on the resale value of the home as determined by the community land trust's equity formula rather than the market value of the property.

How does the structure of a community land trust contribute to the affordability of housing?

- The community land trust leases land at less than its market value, providing a subsidy for the property. It could increase the amount of the subsidy by assigning greater value to the land and less to the building so that the building could be sold for less. For example, if the total property cost \$70,000, the community land trust could provide a subsidy of \$30,000 assigning this value to the land and sell the building to the resident for \$40,000, collecting only property taxes as a ground lease.
- The community land trust is sometimes the recipient of gifts or bargain sales of property.
- Land is no longer a commodity and the inflation or deflation of its value is not included in the cost of housing, thus costs are stabilized.
- The property can not be put to other, more profitable uses.

What does the community land trust contribute to the guarantee of permanent affordability?

- The community land trust's members include those with no personal financial stake in the properties.
- The community land trust controls the sale of buildings by retaining the first option to repurchase buildings at a price that does not include the market appreciation of land or the subsidy. The community land trust can then resell the building and lease the land beneath it to new residents.

How does the community benefit from a community land trust?

- It decreases the role of absentee landlords.
- The community gains stability with long term residents who are property owners.
- The community land trust fosters the development of supportive relationships in the community.
- It reduces the burden on public agencies and appropriations.
- It allows the community to determine best use of land to meet community needs, giving the community control over development.

What are the disadvantages of establishing a community land trust?

- It takes a long time to develop and requires considerable educational and promotional effort. Most groups have spent at least two years. It is unfamiliar and has sometimes been controversial. Working with a local government might make it less controversial but it could also politicize the process.
- Banks may be unfamiliar with this mechanism, hesitant to grant a mortgage because they are concerned about their ability to foreclose in the event of a default. Most community land trusts have negotiated with lenders to allow the community land trust to cure a default and resell the property. In some cases, the Federal National Mortgage Association (Fannie Mae) has sold community land trust mortgages on the secondary market but the current status and possible restrictions should be confirmed when arranging financing.
- It requires a long term commitment, but any mechanism for oversight will only

endure as long as there are people and an organization to enforce the restrictions. If the community land trust should be dissolved, it must distribute its assets to another nonprofit which must honor the lease agreements.

What resources would be helpful in establishing a community land trust?

- Institute for Community Economics, their technical experts, speakers, publications, and Revolving Loan Fund
- Representative Andy Dawkins
- Steve O'Neill and other members of the Northern Community Land Trust
- Mark Schultz (see Informational Resources)

UNDERSTANDING LIMITED EQUITY COOPERATIVES

What is a limited equity cooperative?

- It is a democratically-controlled corporation, owned and operated by member stockholders, all of whom are residents of the building or buildings. The corporation holds title to the building(s), assumes a blanket mortgage on the entire building, and receives one tax bill.
- Resident members purchase shares of stock which entitle them to occupy their units and participate in the operation of the cooperative.
- Cooperatives usually require active participation by members. In small cooperatives, members meet regularly and make management and fiscal decisions. In larger cooperatives, members elect a board of directors to fulfill these responsibilities. In either case, the coop may engage the services of professional managers. Members of the coop still retain control over decision making.
- This might be a good approach to converting existing rental housing which is already occupied. Tenants can be involved in the decision to convert to a cooperative and could purchase a share.

How does a community land trust differ from a limited equity cooperative?

- Members of a cooperative each own an equity share, members of a community land trust can not have personal ownership of assets.
- Both are democratically structured with elected boards (except for smaller cooperatives which operate without a board).

- Limited equity cooperatives usually have only one or a few buildings in a limited area, while a community land trust may own a variety of properties throughout a larger area.

What is the tax situation for limited equity cooperatives?

- Each member is entitled to the homestead exemption and to deduct his or her share of the mortgage interest from income taxes. In many cases this deduction is less valuable than the renters credit would have been to low income occupants, especially those who do not itemize. This is an example of why members need legal advice before joining a limited equity housing cooperative.
- If a Community Land Trust holds the title to the land, the community land trust pays that part of the property tax from the proceeds of the ground lease.

How does the limited equity cooperative structure contribute to the affordability of housing?

- Mortgage and closing costs are reduced because the blanket mortgage is not refinanced each time there is a change in member/residents.
- Members contribute to reserve funds for future improvements or maintenance so sudden increases in expenses can be avoided.
- Members can participate in the maintenance and operations, thus reducing costs.
- Limited equity cooperatives which meet certain requirements are eligible for tax advantages.

How does the limited equity cooperative structure contribute to the guarantee of permanent affordability?

- Members have 99 year leases so this is their home as long as they pay their share of the monthly operating expenses and abide by the cooperative's bylaws.
- The transfer value of a share is limited by the cooperative's bylaws which means that the cost of a share in the future will remain affordable.

What are the disadvantages of developing a limited equity cooperative?

- Resources must be provided for training residents in the rights and responsibilities of membership and collective decision making. Residents will probably need help on an ongoing basis to see themselves as owners and decision-makers rather than as tenants in an adversarial relationship with a landlord. Those who have had experience as members of community organizations may be more responsive to this training.
- Many banks may be hesitant to provide financing

What resources would be helpful in establishing a limited equity cooperative?

- Charlie Warner (see Informational Resources)
- Broen and Pope (see Informational Resources)
- Ann Waterhouse (see Informational Resources)
- Limited Equity Housing (see Annotated Bibliography)
- Other nonprofit developers such as the members of the Minneapolis Consortium of Nonprofit Developers and the Saint Paul Coalition for Nonprofit Developers

FINANCING AND LEGAL ISSUES

I. Community Land Trusts--State Regulations

The 1992 Minnesota Legislature appropriated \$2 million in general obligation bonding for neighborhood land trusts. The investors who buy the bonds do not pay federal or state taxes on the interest earned. The Department of Finance issues the bonds and appropriates the proceeds to the Minnesota Housing Finance Agency. The principle and interest on the bonds is paid from an appropriation to the general fund. If the funding is used for purposes specified by the Legislature for a 20-year period, the loan will be forgiven.

These funds can be used for the acquisition of land and the construction or rehabilitation of buildings to provide housing for residents at or below 80% of median income. The relevant restriction is that the project must be owned by a unit of local government which includes cities, counties, housing and redevelopment authorities, public housing agencies, and economic development agencies. The local government has the following options:

- 1) It may own the property and operate the program itself
- 2) It may contract with a nonprofit to manage the property
- 3) It may sell the buildings to a nonprofit at market value
- 4) It may lease the property to a nonprofit organization. The precise details are still being formulated by the MHFA but will probably require that the nonprofit pay annual rent equal to the amount of that part of the loan attributed to the building, divided by the number of useful years of the life of the property. After twenty years, the government could sell the land to the nonprofit.
- 5) It may lease the property to a nonprofit for a nominal amount if the lease is no longer than

ten years and if the local government can cancel the lease at the end of any three year period and the property is used for the purposes specified by the Legislature.

MHFA officials have indicated that this money will probably have to be combined with other sources such as First Time Homebuyer Loans into a larger financing package. They have not yet decided whether to fund a few projects or spread the money among many smaller projects so that they could evaluate its effect. Communication with them in developing any proposal would be important.

The Legislature also appropriated \$100,000 in 1991 for organization and activation of demonstration land trusts. This money has already been allocated (to Summit University, All Parks, Northern Community and St. Cloud).

II. Community Land Trusts--Federal Regulations

1) A community land trust should qualify as a Community Housing Development Organization, a CHDO, since one-third of its membership would be residents and, thus, low-income representatives.

2) HUD has specifically stated that HOME can be used by community land trusts for the purchase of land and by low-income families for the purchase of homes on community land trust lands.

3) HOME funds can be used only for specific housing projects and not for the operational expenses of housing organizations.

III. Leasehold Limited Equity Cooperatives

In order to qualify for the homestead deduction the following requirements must be met:

- 1) 40% of residents have incomes at or below 60% of area median
- 2) Residents are "materially involved" (see supplementary materials) in the management of the property,
- 3) The cooperative has the right to purchase the property at the end of a minimum 20 year lease term
- 4) The managing general partner is a nonprofit, tax exempt organization

Many of these developments have tenants with Section 8 certificates which allows for much higher rents (also known as housing charges) than would otherwise be possible. In turn, this provides additional funds for the operating budget.

**INFORMATIONAL RESOURCES
DIRECTORY**

CONTACT:

Adams, Russ
or Glen Shumacher
All Parks Alliance for Change
(612) 644-5525

Working on Community Land Trust
(CLT) for trailer parks

Ash, Jordan
Action Community Land Trust
Peace Dale, R.I.
(401) 789-3016

Serves 10 rural and coastal towns
uses CLT with limited equity co-op

Baron, Greg
Minnesota Housing Finance Agency
(612) 297-3123

Contact for Neighborhood
Land Trust funds

Brown, Mike
St. Cloud Housing Coalition
(612) 259-7676

Starting St. Cloud CLT

Berglin, Senator Linda
(612) 296-0294 or 874-0084

CLT supporter

Broen and Pope
1160 Selby Avenue
St. Paul, MN 55104
(612) 644-3157

Co-op developers and trainers

Brustad, Dick Brighton Development (612) 332-5664	Developer of leaseholds
Clark, Representative Karen (612) 296-4261 or 722-7728	CLT supporter
Collins, Chuck Institute for Community Economics 57 School Street Springfield, MA 01105-1331 (413) 746-8660	CLT technical expert
Consortium of Minneapolis Nonprofit Developers (612) 338-8729	
Conway, Julie Broen and Pope 1160 Selby Avenue St. Paul, MN 55104 (612) 644-3157	Co-op developer and trainer
Dawkins, Representative Andy (612) 296-5158 or 224-6270	CLT supporter
Erchul, Jim Dayton's Bluff Neighborhood Housing (612) 774-6995	Working on Swede Hollow CLT
Fairbanks, Judy	Working on CLT

White Earth Land Recovery Project
(218) 983-3394

Falk, Janet
Community Economics, Inc.
1700 Broadway, 7th Floor
Oakland, CA 94612
(510) 832-8300

Co-op developer

Finzell, Greg
New Rondo Community Land Trust
Summit-University Planning Council
625 Selby Avenue
St. Paul, MN 55104
(612) 647-0862

Establishing a CLT

Hartman, Chester
Institute on Policy Studies
1601 Connecticut Avenue, N.W.
Washington, D.C. 20009

National housing expert

Jennings, Mark
(218) 726-2857

Duluth attorney
drafted their ground lease

Kilgore, Paul
(218) 722-0861

Duluth attorney
drafted their ground lease

McGuinness, Dan
Torrington Affordable Housing Committee
Box 1172

Suburban, scattered site and limited
equity co-op with CLT

Torrington, CT 06790
(203) 489-2220

National Association of Housing Cooperatives
703-549-5201

O'Neill, Steve
Northern Communities Land Trust
206 W. 4th Street, #5
Duluth, MN 55806
(218) 733-0257 work
(218) 724-2054 home

Orvis, Julie
Institute for Community Economics
57 School Street
Springfield, MA 01105-1331
(413) 746-8660

Provides contacts with other CLTs

Radliff, Bob
Albany Community Land Trust
340 First Street
Albany, N.Y. 12206
(518) 426-1296

Uses rental/purchase agreement
with debt reduction

St. Paul Coalition for Nonprofit Development
165 Western Avenue, North
St. Paul
(612) 292-8074

Schultz, Mark
(612) 823-5221

Local CLT advocate, worked at ICE,
recommended by Steve O'Neill

Seidel, Stephen
Habitat for Humanity
(612) 332-3372

Tooley, Joanne
District 7 Community Council
St. Paul
(612) 298-5608

Uses "good neighbor" clause

Warner, Charlie
Community Action for Suburban Hennepin
Norwest Bank
(612) 933-9180

Waterhouse, Ann
Westminister Corporation
(612) 291-1750

Active in Cedar Riverside CDC,
consultant to New Rondo CLT

Williams, Pat
West Hartford Interfaith Coalition
P.O. Box 270224
West Hartford, CT 06127-0224
(203) 561-3563

Very affluent suburb
uses CLT with limited equity co-op

Wyatt, Bryan
Minnesota Housing Partnership
1929 S. 5th Street
Minneapolis, MN 55454
(612) 339-5255

Technical expert, familiar with New
nonprofit suburban developments

Zigas, Barry
Low Income Housing Information Service
1012 14th Street, N.W.
Suite 1006
Washington, D.C.
(202) 662-1530

National housing expert

**MODEL DEVELOPERS
SUBURBAN**

Agency: Torrington Affordable Housing Committee
Contact: Dan McGuinness 203-489-2220
Referred by: Julie Orvis at Institute for Community Economics

Housing developed: a) \$1 million, 37 units of detached housing, on lots of 6,000 to 23,000 sq. ft. b) a limited equity coop in a converted school house for families under \$20,000 income, using sweat equity
c) now doing 25 scattered site housing, have \$850,000 grant

Summary: The state of Connecticut has a land trust program and some CLTs had done a little developing so people were familiar with concept. They had a developer who wanted to do a low cost (80% of median income) housing project and approached them in order to gain access to some of the available state funds. They are a nonprofit with all volunteer members and one staff member. They held a public meeting, did a brochure showing housing styles (see supplementary materials). Townspeople were relieved that it would not be an embarrassment. Their highest demand was from single parents of small families needing 2 bedrooms. Used criteria for selection such as whether they lived/worked in town, had children. The head of the local housing authority is an enthusiastic supporter of this CLT. They felt that the support and experience of this person was crucial. See supplementary materials for their ground lease.

Agency: West Hartford Interfaith Coalition
Contact: Patricia Williams 203-521-6868
Referred by: Julie Orvis at Institute for Community Economics

Housing developed: a) 4-unit limited equity cooperative took about 28 months after site selection

Summary: West Hartford is a very affluent suburb. The homeowners were low-income, invested 300 hours of sweat equity, no cash. The interfaith coalition is the land trust. The homeowners formed a cooperative. One member of Interfaith has a non-voting position on their board, one of the homeowners has a voting position on land trust board. The building is self managed; they developed a management budget before they moved in. Second proposed development which needs zoning change and would be in an even more affluent area is now subject of litigation. Her advice: persevere. It was easier to get support in economic boom times and when property values were rising; much harder during recession. They lined up a lot of support in the religious community and among politicians, but many neighbors were afraid, worried about property values. Their best argument has been that the housing would be well maintained and, thus, not lower property values. Needed zoning change--used neighborhood meetings near site, coffee klatches, introduced typical applicants willing to advocate for themselves, lots of press conferences and gathered signatures in town center in response to petition against project, went door-to-door, sent individual letters and used media, as well as sermons (see supplementary materials for publicity).

OTHER DEVELOPERS OF INTEREST

Agency: Action Community Land Trust
Contact: Jordan Ash 401-789-3016
Referred by: Julie Orvis at Institute for Community Economics

Housing Developed: a) rehabbed a duplex and three family unit as a limited equity co-op, owners are just moving in
b) building 12 duplexes on land they already owned

Summary: The land trust was established by a community action agency serving ten towns in a rural and coastal area of southern Rhode Island. The agency had a history of providing emergency services and home repair. The agency director was active in the comprehensive planning process for these towns and succeeded in having permanently affordable housing endorsed. They were able to get CDBG funds from town. They used funds to acquire land from the town. They then got a 20 year, 90% of prime, blanket mortgage from local bank. They had local bankers on their board. Their target population is families at 50-80% of median income. The units have HUD approval for section 8 which they feel is crucial in order to establish adequate financial reserves. The hardest part for them has been getting money for their operating costs. They have one person working on the land trust along with a Vista volunteer.

They used the client list from their existing programs for mailings (see appendix) and phone calls to get people to come to informational meetings (where they showed the ICE video). For some of those who attended, this project was not affordable. Others who attended the original meetings eventually became residents. Their involvement in developing the community land trust or on the selection committee for the next set of

residents functions as a kind of sweat equity. For several months they worked on the documents using worksheets which focused on the possible options (see appendix). They already had the housing and land before they organized the Community Land Trust but the process still took about one year.

They began project in towns which had both available housing/land and with whom they already had a very good relationship. They feel that working with ten towns gives them a broad resource base. They were able to use the agency's own expertise in home repair to ensure that the homes were appropriately rehabilitated and to manage the project. This agency seems quite similar to West Hennepin Human Services Planning Board.

Agency: Albany Land Trust
Contact: Bob Radliff
Referred by: Julie Orvis of Institute for Community Economics

Housing Developed: a) 11 scattered site homes, 9 are rental/transitional and 2 have been transferred
b) doing 2 more homes

Summary: This CLT makes housing affordable for very low income families with no money for a downpayment. The CLT owns the land and building and residents move in with a rental/purchase agreement. The residents build equity both through sweat equity (which must be real improvements, not maintenance) and the reduction in principal on the short term loan for the property. Eventually the reduction in debt is treated as a credit when they apply for a conventional mortgage on the house, but in the meantime the CLT functions as the property manager. They work with a consortium of banks which are flexible in their mortgage requirements.

MINNESOTA COMMUNITY LAND TRUSTS (CLTs)

CLT: Northern Communities Land Trust

Contact: Steve O'Neill 218-733-0257

Housing Developed: a) one single-family house on which they are just getting ready to close
b) planning to do another single family house
c) negotiating to purchase the YMCA with 60 single occupancy rooms. They would lease it to a non-profit to manage as rental housing but their ownership would guarantee that it remains permanently affordable. Eventually, they would like to convert it to a limited equity coop. They also own some vacant land.

Summary: This is a volunteer program which contracts for services as needed. They received a \$5,000 MHFA development grant. They've taken 2 1/2 to 3 years to get to this point. Their biggest hurdle has been developing a ground lease suitable for Minnesota. Chuck Matthei (formerly of ICE) came to Duluth. They used media, press conferences, visits to radio and television shows. He spoke to their core group of housing and neighborhood activists and then held public meetings with question and answer session. They also held separate meetings for lenders and for city officials. Stressed pragmatic, cost-effective appeal to taxpayers that subsidy wouldn't be lost. They have not experienced great sympathy for, or understanding of, the cooperative movement in the Duluth area.

Their first unit was virtually donated to them so they have little enough invested in it that they can afford to hold the mortgage themselves. Thus, they have not yet actually used a bank mortgage but they've laid good

ground work with their meetings and board membership. Their city housing agency has been supportive as has the MHFA which has given them planning grants. They will use existing community education classes as training for homeowners (who are the current tenants of the house).

Note: Will send copy of their ground lease as soon as it's completed. Board members (ex. attorneys or bankers) could come down to speak.

CLT: North Star Community Land Trust
Contact: Russ Adams 612-644-5525

CLT: New Rondo Community Land Trust
Contact: Greg Finzell 612-647-0862

CLT: St. Cloud Community Land Trust
Contact: Mike Brown 612-259-7676

CLT: Upper Swede Hollow
Contact: Jim Erchul 612-774-6995

CLT: White Earth Land Recovery Project
Contact: Judy Fairbanks 218-983-3394

ANNOTATED BIBLIOGRAPHY

Institute for Community Economics, The Community Land Trust Handbook. Emmaus, PA, Rodale Press, 1982. 228 pages. \$14.95 or can be borrowed from the Minnesota Housing Partnership.

Contains a basic explanation of the reasons for establishing a CLT, several case studies, including Cedar Riverside and strategies for organizing, land acquisition, planning, and development.

Institute for Community Economics, The Community Land Trust Legal Manual. Springfield, MA, Institute for Community Economics, 1991.

240 pages. \$100, \$50 for CLT affiliates and associates or can be borrowed from the Minnesota Housing Partnership.

The Institute of Community Economics is the originator of the community land trust model and a primary source of technical assistance. The Legal Manual contains information on bylaws and basic structural considerations for a CLT. It also has detailed information on designing a resale formula, a lease fee, and ground leases. In conjunction with other model leases, especially the one from Duluth if it becomes available, the manual should expedite the legal process considerably. Chuck Collins, the technical consultant from ICE, was one of the authors.

Institute for Community Economics, A Guide to Resident Selection and Education for Community Land Trusts. Springfield, MA, Institute for Community Economics, 1991. 38 pages plus appendices. \$8.00, \$6.50 for CLT associates and affiliates or can be borrowed from the Minnesota Housing Partnership.

Outlines an outreach, marketing, and selection process which could be used for any nonprofit housing. Discusses financial, social and work criteria. Includes samples of applications forms, requests for information, rejection letters and a brief bibliography on cooperative housing and consensus decision-making.

Institute for Community Economics, "Common Ground," a 20 minute videotape which explains

the principles of community land trusts. Can be borrowed from the Minnesota Housing Partnership and might be useful for informational meetings.

Metropolitan Area Planning Council, Limited Equity Homeownership. Boston, MA, 1989. 137 pages including bibliography. \$20.00 + \$1.50 shipping or can be borrowed from Minnesota Housing Partnership.

Although this book is about projects and programs in Massachusetts, it contains a clear and useful explanation of various kinds of limited equity homeownership including condominiums and cooperatives and of a variety of deed restrictions. Several of the case studies are in suburbs. The discussion of the scattered-site limited equity cooperative program of Jamaica Plain raises a number of governance and management issues which might be relevant here. Another relevant case study might be Framingham.

SUPPLEMENTARY MATERIALS

West Hennepin Human Services Planning Board

4100 Vernon Avenue South
St. Louis Park, MN 55416-3199
(612) 920-5533

Marcy Shapiro
Executive Director

WHHSPB Mission Statement

West Hennepin Human Services Planning Board is dedicated to the empowerment of people and the development of human services to improve the quality of life in our community.

Community Builders

4100 Vernon Avenue South
St. Louis Park, MN 55416-3199
(612) 920-5533

Bruce Larson
President

Community Builders Mission Statement

To acquire, improve, and preserve decent, safe, affordable housing for very low, low, and moderate income individuals and families through the development of model programs which empower families to participate in the development of these programs and take control of their lives; to educate both community leaders and the larger community to be responsive to the need for affordable housing; and to develop relationships between housing and human services which increase self-esteem and promote self-determination.
